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SELLING AMERICAN SECURITIES ABROAD.

BY CHARLES A. CONANT.

THE recent successful flotation in Paris of a loan of \$50,000,000 by the Pennsylvania Railway has attracted attention to a movement which has been gaining in volume for several years. The proposals have been many for introducing American securities upon the Paris market, but their fulfilment has been delayed by difficulties growing out of the French system of taxation and the peculiar organization of the Paris market. To tap the great reservoir of French savings has, however, been the persistent ambition of many American financiers, and recent circumstances have proved favorable to their projects.

Old American houses, like Morgan, Harjes and Company and John Munroe and Company, have always done a solid but unostentatious business in American securities with special clients, but their normal activities have been directed in other channels. Within a few years, however, there have sprung up in Paris nearly a dozen offices of American or French-American banking and bond houses offering securities to the French public. Several American stock-brokerage firms and bond houses have opened offices in Paris, or are contemplating doing so. It has even been suggested that quotations on the New York Stock Exchange be cabled to Paris at frequent intervals during each day, in spite of the fact that the difference in time would make the hours during which the New York Exchange is open correspond to the time from three to eight o'clock in Western Europe. It is probable that a serious bar to such a project would be interposed by Government ownership of the telegraph in France, since the Government would be less disposed than private enterprise to adapt its service to business needs by giving precedence and special service for Stock Exchange quotations.

While there has always been a large investment of English and Continental capital in America, several recent events and tendencies promise to broaden the sources of supply, especially by opening the resources of France, which have heretofore been invested only to a limited extent in Anglo-Saxon lands. Perhaps the most tangible and obvious of these influences has been the great decline in Russian securities on the French market. The opening of the war with Japan caused a panic on the Paris Bourse, which carried down Russian Government three-per-cents. of 1891 from 83 to 73. Successive defeats of the Russian forces on land and sea had their depressing influence from time to time, but it was still possible, as late as April last, to float a new Russian five-per-cent. loan at 90 in Paris, Berlin, and even to a small extent in London and New York. Cloud has gathered upon cloud on the horizon of Russian international affairs, until at last the three-per-cents. sold in July last as low as 57, and even the five-per-cents. are a dozen points below the price at which the loan was issued.

Even before the war, French and Belgian investors who had put their money into Russian industrial securities had suffered from the partial collapse of the elaborate structure built up by Count Witté during the ten years of his service at the Russian Ministry of Finance. Count Witté was a man of foresight and constructive genius, and laid out a policy for the development of an industrial Russia which bore valuable fruit and will continue to bear fruit in time to come. If the policy of tariff protection is ever justified, it is in founding the industries of an undeveloped country. But such efforts, whether in Russia, Japan or America, usually invoke the penalty which follows interference with normal economic law in seeking to erect too rapidly a heavy structure on too slender foundations. Russia reaped this penalty in 1901. The output of her new mills and factories was greater than her population would absorb. It could not be exported at protection prices. In reality, however, it was the foreign investor rather than the Russian promoter who suffered. He found that mines and mills which had been having a large output and promising large net earnings had suddenly turned to scrap-iron. From these conditions Russia might soon have recovered but for the war, and probably she will recover eventually when an orderly government meets the demands of a contented people.

Inevitably, with some \$500,000,000 of savings piling up in France annually, the eyes of the French investor are turned towards new fields. Among the most promising of these fields is America. The accumulation of savings in France is of a special interest to the outside world, because so little new capital is needed in France to replace the wear and tear of existing equipment and create new. The fact that population is stationary is responsible in part for this.

Discussion of new openings for American securities in Europe, therefore, necessarily centres to a large degree upon France, because of the difference between her economic position and that of other countries. These other countries fall into two classes—those which already take American securities in considerable amounts, and those which do not take them because they require their surplus capital at home. In the first class may be included Great Britain, the Netherlands, Belgium and Switzerland. In the second class are Italy, Austria-Hungary, Spain, and Russia. The German Empire occupies an intermediate position, being capable of investing considerable sums abroad, while at the same time absorbing a large portion of saved capital in the extension of her own enterprises.

The British market is already familiar with American securities, but in recent years there has been a heavy demand at home for capital to meet the waste of war and the need for industrial extensions. The process of reconstructing the railways has been going on quietly in Great Britain, following the campaign of education begun some years ago by Mr. George Paish, of the London "Statist," along lines similar to those pursued in America, but much more modest. Larger cars and train-loads and heavier locomotives have required the strengthening of bridges and improvement of terminals, which has demanded from the railways issues of additional stock. The vast surplus of capital saved annually in England is also employed in a large degree in the enterprises which grow out of the extension of colonial power which follows the drum-beat of British authority around the world. Capital was absorbed by hundreds of millions by the war in South Africa and by the necessary work of reconstruction which followed. The taking over of private undertakings by the municipalities has also consumed many millions, contributing to increase municipal indebtedness in Great Britain as long ago as

1904 to £469,000,000, or a sum more than two and a half times the bonded debt of the United States. Such enormous demands for capital have threatened to fetter the international money-market by leaving little available for legitimate banking purposes.

The Netherlands, Belgium and Switzerland are rich in accumulated capital. The Netherlands, much more than the other two countries, has been a buyer of American securities, until the amount held there has come to about \$700,000,000. The Dutch made money when they took United States six-per-cent. bonds during the Civil War at 60; and they have been shrewd enough to pick up many railway securities at bargain prices at times when these were kicking about the American market without a purchaser. Not so much of the savings of Belgium and Switzerland has gone into American securities, but they are gradually turning in our direction. The Belgians, who are enterprising promoters, did a great deal to lead the French into Russian industrial enterprises, and have shared in the losses and regrets which the collapse of those enterprises has caused.

The countries which require their own capital at home,—Italy, Austria-Hungary, Spain and Russia,—keep it there by the simple economic law of paying for its use higher returns than can be earned abroad. Italy has advanced by leaps and bounds during the past dozen years. The deficits which paralyzed the Treasury and injured public credit prior to the scandals of 1893 have been succeeded, under the rigid economy and able management of such finance ministers as Sonnino and Luzzatti, by a modest surplus every year, until the consolidated debt issued at five per cent., hanging long below par, is about to be refunded under favorable conditions at three and three-quarters per cent. This is a low rate, however, for the loan of capital in Italy. The standard rate of discount at Genoa and Milan remains steady at five per cent., and deters the departure of Italian capital for foreign lands, German capital, attracted by this high return, has been poured in large amounts into Italian banking and financial enterprises.

Austria and Hungary are both awakening to a new economic activity which requires all their surplus resources. This is especially true of Hungary. The manner in which Budapest, the capital of Hungary, is gaining over Vienna, is indicated by this com-

parison of the commercial paper discounted at the Austrian and Hungarian headquarters of the Austro-Hungarian Bank:*

Discounts at end of year	Vienna. Crowns.	Budapest. Crowns.
1875.....	102,218,638	33,706,362
1890.....	106,507,806	71,377,140
1900.....	138,544,011	100,400,091
1905.....	181,557,072	179,417,263

The economic experience of Russia has been brought so much into view by the war that it is not necessary to do more than note the fact that Russia is still a poor country, for her great area and population, and will not for many years be able to invest her capital in foreign securities unless some of her well-to-do citizens are driven to it by confiscation and anarchy at home.

If certain American enterprises, including "industrials," appear to be somewhat speculative to the conservative Continental mind, the experience of the last few years, even in government securities, has shown that large profits have been made ultimately by those who have taken certain risks, while, upon those who have purchased what were considered "gilt-edged" securities, serious losses have fallen. The staid investor who would touch nothing but Consols saw them fall in price from 113 $\frac{1}{8}$ in 1898 to 85 in 1904, while the more venturesome speculator upon whom he frowned when he dipped into Italian and Spanish rentes has seen the former rise from 83.80 in 1895 to 105 in 1905, under the enlightened policy of United Italy, and the latter advance from a depression of 34.50 at the crisis of the war with America to a quotation in July last of 95.70. The Government of Spain acted with good faith and self-sacrifice in dealing with her foreign obligations after the war. Interest continued to be paid in full, not only upon the "exterior debt," and upon the Philippine debt commuted with the United States by the Treaty of Paris, but even upon the Cuban debt, for which liability was distinctly repudiated in the treaty by both Cuba and the United States.

Thus the securities of these countries have been rising, while those of the rich and well-established countries have fallen, because the supply of surplus capital reached its maximum when quotations were at the highest and before the waste of the Span-

* The figures for the earlier years, expressed in florins, have been converted at the rate of two to one into crowns, the present monetary unit of Austria-Hungary.

ish, Boer and Japanese wars changed radically the relations between demand and supply.

An important element which is acting upon the minds of the old *noblesse* of France and the conservatives of other Continental countries in seeking safe investments, is the growth of Socialism in Europe. Another inspiration to the transfer of great quantities of French capital into Italian, Spanish and other foreign securities, has been the Church separation law in France, which has confiscated to the State real property of great value belonging to the religious orders and congregations, and warned them to place their movable property beyond the reach of French officials. The movement in France against the Church is only one of the many symptoms of the gradual growth in Europe of a spirit which is hostile to vested rights and the security of investments. Its influence was felt in the fall of the balances on deposit in the national savings-banks from 4,429,400,000 francs at the close of 1901 to 4,305,700,000 francs at the close of 1903.

The growth of Socialism and of hostility to the Church is a powerful undercurrent of politics in almost all Continental countries. While French clericals and conservatives have transferred much of their wealth temporarily into the securities of Italy, Spain and Austria, it is keenly recognized by the more far-sighted among them that this policy affords only temporary safety. Italy set the example of a vast confiscation of Church property, with inadequate compensation, immediately after the troops of Napoleon III ceased to support the Papal authority at Rome. Austria is still clerical and conservative, but Hungary and the other states which are not German are straining at the leash, and threaten to overturn the Austrian hierarchy as soon as the respected and conservative Francis Joseph ends his long reign. In Hungary every sober preparation is being made for an independent national life. A magnificent parliament house at Budapest, quarters for the bank which surpass in magnificence those at Vienna, and an extension of the royal palace to double or triple its old proportions have all been finished within the last half-dozen years, to welcome the new King of Hungary who shall revive the glories of Stephen and Michael and John Hunyadi. Even if Austria were willing to accept with complacency the break-up of the Empire of the Hapsburgs, a score of questions,—like the new customs tariffs or the control of Bosnia,—are likely

to bring the two countries to the brink of war. Austria, therefore, is not a safe depository of conservative investments. In Italy and Spain, also, no one knows at what moment Radicalism and Socialism may take the bits in their teeth and follow France in a new series of confiscations and oppressive taxes. Already, at the very moment when the venerable head of the Catholic Church is protesting against a law which denies freedom of worship in France to those who will not join the state-ordained corporations, the government of Spain is proposing similar measures in the land of Philip II, and threatening hostile legislation against the ministers of religion fleeing across the border from France.

In looking towards America as a safer field for investment in order to escape the march of Socialism, the conservatives of Europe do not fail to realize that Socialism is making headway also in America, but they feel that Anglo-Saxon law and traditions are a safeguard against violent confiscation,—that, even if England or America should enter upon a policy of acquiring private wealth for public purposes, it would be done in that spirit of conservatism and justice which has ever been the distinguishing trait of Anglo-Saxon peoples. The policy of the United States towards the religious orders in the Philippines has been an illuminating lesson of this sort. The willingness to pay the full value amicably agreed upon for the property of orders alien to the new government, and hated by the masses, has set an example of American policy which has borne much favorable fruit.

Even apart from any Socialistic motive, the pressure of taxation in France is constantly becoming heavier in order to meet the demands for modern armaments and the multiplication of public functionaries. The late ministry of M. Rouvier was forced by its Socialistic supporters, and much against the supposed normal inclinations of its head, to take up the subject of an income tax; and the present ministry, in spite of the high reputation of M. Clémenceau, has felt compelled to follow in the same path with a zeal which promises definite legislation within a short time. The income tax, already domesticated in conservative England, would be endurable in itself if it were proposed in lieu of other taxes, but when it is to be superimposed upon stamp taxes upon every form of document, transfer taxes upon real estate which almost prohibit transactions, window taxes, railway and theatre ticket taxes, check taxes and government monopoly of

matches and tobacco, it threatens to impose a load upon the back of French capital and enterprise which will cause it to stagger and fall back in the race with economic rivals. The succession tax alone proposed in the new French budget, rising above twenty-five per cent. for large fortunes given to others than near relatives, will prove a prolific mother of evasion and concealment and the expatriation of French savings to foreign fields.

The sale of American securities in Europe is not a novelty, but heretofore they have found a smaller market in France than in England, Germany and Holland. Frenchmen have recently begun to buy quietly small lots of American securities through the old-established exchange houses. There are several obstacles, however, to a large distribution of American securities in France, some of which will be removed by the broadening of the market, and others which are of a more serious character.

The French have always relied to a large degree upon their bankers and notaries in making investments. What these men recommend the average middle-class investor takes, without seeking information in detail for himself. In many cases, he does not care to see the securities, but accepts a receipt for his investment. This confiding spirit on the part of the French investor greatly aided some of the large French banks in unloading Russian industrials and other doubtful securities upon him prior to the Russo-Japanese war. The ability to place large issues successfully strengthened the arms of the big banks in crushing the provincial bankers. The Paris bankers not only accumulated immense resources themselves, but by absorbing the important new issues they left nothing for the provincial bankers to offer their customers. This fact, with its consequences, may prove helpful in the introduction of American securities. One of the new Franco-American enterprises derives its strength from the cooperation of the syndicate of three hundred provincial bankers, which was organized to fight the *Crédit Lyonnais* and which will welcome good American securities to distribute among its clients.

Among the obstacles to be overcome in winning investors are the recent upheaval in life-insurance, the investigation of Pennsylvania Railway management, the attacks upon the meat-packers and similar events, which have had a somewhat disturbing effect upon the conservative mind. They have tended to create the impression that American financial management is lacking in hon-

esty and conservatism. Upon the whole, however, the attacks upon the insurance companies have already to a considerable extent spent their force. It was naturally for the interest of the European companies to magnify the seriousness of the troubles in the three big American companies, and to spread the impression that these troubles affected the financial status of the companies as well as details of management. Perhaps among more far-sighted Continental investors, however, the fact that the American insurance companies and American financial institutions have ridden successfully through such a storm justifies the deduction that they must be fundamentally sound. In this respect, shrewd financiers in Europe realize that enterprise in the United States is out of its swaddling-clothes and that no such serious fall in values is again to be feared as marked the panic of 1873 and the railway reorganizations which followed the panic of 1893.

In order to afford a popular market for American securities in France or any other country, it is necessary not only that the securities should be good, but that they should be readily marketable. The Pennsylvania Railway has attained this result by having its securities issued through houses of reputation and listed on the Bourse. This will enable the holder of these securities who desires to dispose of them to find a market on the regular exchanges, and to know by the daily quotations at what price he can sell. It is almost essential also to a successful flotation upon a large scale that the holder of the securities shall be able not only to sell them, but to borrow on them. This has been attained in the case of the Pennsylvania Railway loan by the fact that, as it is listed, the leading banks, including especially those which took part in the flotation, are ready to loan upon it the usual proportion of market value. If securities less widely known are introduced on the market, as is contemplated by the Banque Franco-Américaine, the same object can be accomplished by the readiness of the issuing bank to loan a fixed percentage of market value.

One of the most serious obstacles which have heretofore prevented large offerings of American securities in Paris has been the French tax laws. Foreign securities, when quoted on the Paris Bourse, have been subjected to a complication of taxes upon the issue, the transfer and the income, which are so elaborate that even competent attorneys find it difficult to determine just how they may be applied in particular cases by the bureau of the

fisc, which in such matters exercises a wide latitude. Just what arrangement was made by the Pennsylvania Railway has not been officially announced, but the fact that the securities are selling free of existing taxes to the buyer indicates that a lump sum was paid to the *fisc* and apparently charged up by the railway to the cost of floating the loan. There are American corporations which would willingly submit to a considerable shave on this account; but heretofore the stronger ones have been unwilling to meet in advance the heavy taxes which would fall upon them under the French law if strictly interpreted. One provision of the law which has prevented other issues was not a serious obstacle in the case of the Pennsylvania. This was the requirement that a company listing securities must pay taxes upon at least one-tenth of the total issue. As the whole of the issue was made in this case in France, this requirement was not a hardship; but it is obvious that it would have been an insurmountable obstacle to listing the stock of the Steel Corporation, if it had been necessary to pay taxes upon \$100,000,000 when a sale in France was expected for perhaps only \$25,000,000.

The burden of the French taxes has been such that many devices have been adopted to escape them. One such device, which meets the difficulty of paying a tax upon too large a proportion of capital, is that of a holding company. Such a company is able to make an issue of debentures which are sold exclusively in France and which comply fully with the requirements of the *fisc* in regard to taxation. It is not necessary to list or pay taxes upon the varied lot of securities which lie behind the debentures. This is the method of attracting French capital which has been adopted by the Speyer syndicate.

Notwithstanding devices of this sort, the taxes imposed upon the listing and sale of securities on the Paris Bourse have begun to be felt upon the economic progress of France. It has been known for several years that thrifty French investors transferred both their security holdings and their bank accounts to the foreign branches of the Crédit Lyonnais and other French banks, principally in Brussels and Geneva. Just how far this process had gone in reducing the visible wealth of France was recently brought out by de Foville, the eminent French economist, in an article in "*L'Economiste Français*." He showed that the annual average amounts passing through the tax office under the succession

tax had fallen from 6,930,000,000 francs, for the five years ending with 1895, to 6,869,000,000 francs for the five years ending with 1900, and to 6,489,000,000 for the four years ending with 1904. Without by any means adopting the conclusion that this marked decline in the average property assessed for succession taxes was due exclusively to the taxes on securities, M. de Foville declared:

"The legislator has shown himself for the last ten years so severe, even malevolent, towards capital under all forms, that many capitalists have sought to put themselves beyond the reach of his pursuit. The foreign banks have opened their doors and their vaults eagerly to the fugitive millions, and certain projects which are being announced may intensify still further this centrifugal movement, which would naturally contribute in a certain measure to the impairment of the estates subject to assessment."

The prospect is not unfavorable, then, for the flow of many millions of French money into American securities if American enterprises and American policy prove worthy of confidence. Stock-jobbing, laws and measures hostile to property rights, confiscation of private wealth without due compensation, or the sweep of Socialist triumph in American politics will arrest the flow and drive the conservative French investor back to the resources of his own country or those of neighboring countries, where the right to enjoy in declining years what one has gained by the sweat of his brow in early days is still respected. The French government will not interfere with the outflow of French capital on protective grounds, because it is not needed at home. It may seek to retain it for purposes of taxation, and with this end in view recently allowed it to be given out that an international conference was under consideration to prevent what in America is called "tax-dodging"—the transfer of property across the frontier to the community where it is least taxed. This would not only be a difficult project in itself, but it would find little sympathy in those countries which are benefiting by the use of French capital,—Belgium, Switzerland and America. If such measures are ineffective between communities and states in a common union, they are likely to be nearly futile between independent states in checking the operation of the fundamental law of capital,—that where security and confidence exist, it will flow to that country where it will earn the highest net return.

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